

9. No protests to the application have been filed.

10. AT&T is a New York corporation that provides domestic and international telecommunications services throughout the United States. It is primarily a long-distance carrier.

11. TCG is a Delaware holding company with three California subsidiaries: TCG-San Francisco, TCG-Los Angeles, and TCG-San Diego.

12. TCG's California subsidiaries offer dedicated and switched telecommunications services over a digital network. The customers of these TCG subsidiaries are primarily businesses and other institutions that are heavy users of telecommunications services.

13. TA Merger Corp. is a Delaware subsidiary of AT&T that has been formed for the specific purpose of effectuating AT&T's merger with TCG and ensuring that the transaction qualifies as a tax-free reorganization under § 368(a) of the Internal Revenue Code.

14. Under the Merger Agreement, shareholders of TCG will, at the time the merger is completed, receive 0.943 shares of AT&T common stock for each share of TCG common stock.

15. AT&T wishes to enter into the merger so that it can acquire TCG's existing digital network and use it as the cornerstone of facilities-based local exchange offerings. AT&T prefers such an acquisition of local telecommunications infrastructure to the time-consuming and complex alternative of constructing such infrastructure.

16. TCG wishes to enter into the merger so that it can enjoy the benefits of AT&T's superior financial strength, brand-name recognition and marketing expertise.

17. After the merger is consummated, AT&T's and TCG's respective California subsidiaries will continue to serve their customers pursuant to existing tariffs on file at the Commission.

18. In 1996, the sum of the gross intrastate California revenues generated by AT&T's California subsidiary, AT&T Communications of California, Inc., and the revenues generated by the four California cellular companies that AT&T controls indirectly through its subsidiary AT&T Wireless Services, Inc., exceeded \$500 million.

19. In D.97-05-092, the Commission concluded that it has power under PU Code §§ 853(b) and 854(a), upon an appropriate showing, to exempt from review under §§ 854 (b) and (c), a merger to which a California utility with gross annual California revenues in excess of \$500 million is a party.

20. AT&T Communications of California, Inc. is both an NDIEC and a CLC.

21. Each of TCG's California subsidiaries is an NDIEC as well as a CLC.

22. The proposed merger between AT&T and TCG does not involve putting together two traditionally regulated telephone systems.

23. Because TCG's California subsidiaries are NDIECs as well as CLCs, the Commission does not exercise the type of ratemaking authority over them that would allow an allocation of merger benefits, as required by § 854 (b).

24. TCG has grown under competitive forces at the risk of its shareholders, without a captive ratepayer base or guaranteed service territory.

25. Nationally, TCG serves 65 metropolitan markets, including 28 of the 30 largest metropolitan areas.

26. Access to AT&T's superior financial strength, brand name recognition, and marketing expertise will enable TCG to expand its network further.

27. A merger with TCG is likely to enable AT&T to jump start its entry into the facilities-based local exchange market in California.

28. The price to be paid by AT&T for TCG's shares is not unreasonable.

29. A merger with AT&T is likely to enhance TCG's ability to attract and retain high quality, experienced managers.

30. Under the Merger Agreement attached to the application as Exhibit H, TCG employees will, upon consummation of the proposed merger, be entitled to the superior benefits enjoyed by AT&T employees.

Conclusions of Law

1. Applicant's motion to place under seal, pursuant to G.O. 66-C, the financial statements set forth in Exhibits G and J to the application, should be granted to the extent set forth below.

2. It would not be appropriate to determine whether mergers involving NDIECs are exempt from review under PU Code §§ 854(b) and (c), even if one of the parties to the proposed transaction has gross annual California revenues in excess of \$500 million, without considering the question in a generic rulemaking with full opportunity for comment.

3. It would not be appropriate to rule in this case, for the purpose of determining whether §§ 854(b) and (c) have been triggered, whether PU Code § 854(f) precludes consideration in every case of the affiliate revenues of acquiring utilities.

4. For the reasons set forth in Finding of Fact (FOF) Nos. 22, 23, and 24, this is an appropriate case in which to exercise the Commission's exemptive powers under §§ 853(b) and 854(a) and hold that, regardless of the fact that AT&T's California affiliates have gross annual intrastate revenues in excess of \$500 million, the proposed merger should be exempt from review under §§ 854(b) and (c), and should instead be reviewed under § 854(a).

5. The proposed merger between AT&T and TCG poses no competitive detriment to any of the affected markets, and offers some competitive benefits to the local exchange market.

6. Because the proposed transaction involves only a change in the underlying ownership of facilities, it can be seen with certainty that the merger between AT&T and TCG will not have a significant effect upon the environment.

7. For the reasons set forth in FOF Nos. 26-30 and Conclusion of Law Nos. 5-6, the proposed merger between AT&T and TCG is in the public interest, and should be approved pursuant to PU Code § 854(a).

8. The approval set forth herein is not a finding of the value of the rights and property to be transferred.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, AT&T Corp. (AT&T), Teleport Communications Group Inc. (TCG), and TA Merger Corp. are authorized to merge in accordance with the terms set forth in Application (A.) 98-02-001.

2. Exhibits G and J to A.98-02-001 shall remain under seal for a period of one year from the effective date of this order. Said exhibits shall not be made accessible or disclosed to anyone other than Commission staff or a party who has signed an Appropriate Nondisclosure Agreement, except upon further order or ruling of the Commission, the Assigned Commissioner, the assigned Administrative Law Judge (ALJ), or the ALJ then designated as the Law and Motion Judge. For purposes of the foregoing sentence, Appropriate Nondisclosure Agreement shall mean an agreement substantially identical in form to the attachment to the Administrative Law Judge's Ruling Granting Motion of Teleport Communications Group, Inc. and AT&T Corporation For

Approval of Nondisclosure Agreement, issued in this docket on March 2, 1998. Should the need for confidential treatment of Exhibits G and J to A.98-02-001 continue to exist after expiration of the one-year period specified herein, AT&T or TCG shall apply for an extension of this Ordering Paragraph (OP) 2 no later than 30 days before the one-year expiration date.

3. Within 30 days after the change of control authorized herein has taken place, AT&T shall file with the Commission's Docket Office, for inclusion in the formal file of A.98-02-001, written notice that said change of control has taken place.

4. The authority granted in OP 1 shall expire if not exercised within 12 months after the effective date of this order.

5. In the event that the books and records of the applicants or any affiliates thereof are required for inspection by the Commission or its staff, applicants shall either produce such records at the Commission's offices, or reimburse the Commission for the reasonable costs incurred in having Commission staff travel to any of applicants' offices.

This order is effective today.

Dated May 7, 1998, at San Francisco, California.

RICHARD A. BILAS
President
P. GREGORY CONLON
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

Commissioner Jessie J. Knight, Jr., being necessarily absent, did not participate.

APPENDIX A

	TCG San Francisco	TCG Los Angeles	TCG San Diego
InterLATA – Facilities-Based and Resale	D. 97-05-009 (Corrected by D. 97-06-003)	D. 97-05-010 (Corrected by D. 97-06-003)	D. 97-05-011 (Corrected by D. 97-06-003)
IntraLATA – Facilities-Based and Resale	D. 93-04-063	D. 93-04-063	D. 94-12-037
Local Exchange – Facilities-Based	D. 95-12-057	D. 95-12-057	D. 95-12-057
Local Exchange – Resale	D. 96-02-072	D. 96-02-072	D. 96-02-072
Local Exchange – Facilities Based and Resale (Roseville and Citizens Territory)	D. 98-01-055	Not applicable	Not applicable
InterLATA and IntraLATA High Speed Private Line	D. 89-02-016 (InterLATA) D. 90-07-022 (IntraLATA)	D. 89-04-044	D. 94-05-045
Transfer of CPCNs	D. 95-02-095	D. 95-02-056	Not applicable
Transfer of Ownership	D. 96-06-039	D. 96-06-039	D. 96-06-039

Prepared 2/2/1998